



**North Carolina Department of Health and Human Services**  
**Division of Mental Health, Developmental Disabilities and Substance Abuse Services**  
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Michael F. Easley, Governor  
Carmen Hooker Odom, Secretary

Michael Moseley, Director

June 23, 2006

**MEMORANDUM:**

TO: LME Directors

FROM: Laketha Miller  
DHHS Controller's Office

Mike Moseley  
DMHDDSAS

RE: Fund Balance Determinations for SFY 06 and Thereafter

The purpose of this communication is to address the manner in which the Division and Controller's Office will review fund balances for non-single county LMEs, beginning with SFY06, and determine the amount of excess fund balance required to be returned to the Division.

The Division and Controller's Office have historically included a fund balance calculation in the annual TSR according to Administrative Rule 10 NCAC 27A .0111. The primary purpose of the calculation was to determine whether there was any fund balance to be recouped by the Division. In recent years the TSR fund balance calculation followed the overall example as found in the administrative rule but was simplified with the removal of the CTSP and MR/MI restricted fund balance requirements. Most recently the TSR fund balance calculation was presented exactly as found in the single audit with the only adjustments being those items for which the Division allowed the area program to restrict.

The beginning point in the calculation is the fund balance as found in the single audit. The end result of the calculation is to determine the portion of total fund balance available for appropriation that is uncommitted at year-end. This amount may be presented on some balance sheets as Undesignated while others may use the term Unrestricted, which is the term used in the TSR. The unrestricted fund balance amount is then compared to an amount that is calculated to be 15% of the LME's current budget. The amount of unrestricted fund balance that exceeds 15% of the budget is referred to as "Excess Fund Balance" and would be subject to recoupment by the Division. The administrative rule allows the LME the opportunity to request permission from the Division to restrict the excess fund balance for a specific purpose. Any portion of the excess fund balance approved by the Division does not have to be refunded to the Division.



As additional providers become directly enrolled for Medicaid billing and payment, the funds paid by DMA to these directly enrolled providers will no longer be part of the LME's budget. This then lowers each LME's budget and reduces the amount of allowable fund balance subject to the 15% calculation. With the shift of more Medicaid payments out of LME budgets into direct reimbursement to providers, the Division and Controller's Office are adopting special fund balance computation allowances for SFYs 06 and 07 only. While elimination of the 15% unrestricted fund balance maximum was considered, we believe it is advisable to retain this requirement for the foreseeable future. Fund balance computation changes approved by the Division and Controller's Office include:

A. For SFY 06 Fund Balance Computations:

Unrestricted fund balance computations will be based on the greater of (1) the LME's total SFY 06 final budget as presented in the financial statements in the SFY06 single audit, or (2) the LME's total SFY 07 budget as of December 31, 2006.

B. For SFY 07 Fund Balance Computations:

Unrestricted fund balance computations will be based on the greater of (1) the LME's total SFY 07 final budget as presented in the financial statements in the SFY07 single audit, or (2) the LME's total SFY 08 budget as of December 31, 2007.

C. For SFY 08 and Thereafter Fund Balance Computations:

Fund balance computations would continue in the routine manner, i.e., based on subsequent year's budget with no option to compute fund balance based on the current year budget vs. the subsequent year budget. If an LME's fund balance exceeds 15%, they would retain the opportunity to submit a utilization plan to the Division for approval in order to use the portion in excess of 15% rather than refunding the overage to the Division.

Our rationale for this level of modification is threefold. First, it maintains an avenue for an LME to restrict fund balance during the year, with Board approval, as appropriate. Secondly, it enables LMEs to request approval of a fund balance utilization plan to address local needs for fund balance in excess of 15% rather than resulting in an automatic refund to the Division. Finally, it provides two years of transition flexibility (SFYs 06 and 07) for computing fund balances based on either of two years.

Implementation of this fund balance change will be effective with fund balance computations for SFY 06. Should you have any questions concerning this communication, please contact Wanda Mitchell at 919-733-7013 or at [Wanda.Mitchell@ncmail.net](mailto:Wanda.Mitchell@ncmail.net)

LM/MM/ph

cc: Secretary Carmen Hooker Odom  
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